

3rd Shipping Finance Services Committee Meeting Summary

The 3rd meeting of the Shipping Finance Services Committee for the 2023/2025 term convened virtually via Zoom on 12th June 2024 at 3:00pm. The Chairman, Mr Abhishek Pandey, outlined the agenda while emphasising the importance of keeping the meeting efficient. This meeting primarily discussed FuelEU Maritime, Basel 3.1 regulations, and the planning of future committee events.

The FuelEU Maritime, as presented by Mr Heng Chih Chwen from Standard Chartered Singapore, is a key part of the EU's Fit for 55 package to fight climate change. It aims to reduce greenhouse gas emissions from ships by mandating stricter fuel efficiency from 2025 onwards, encouraging the use of shore power for vessels at berth for more than two hours at major EU ports from 2030, and pushing for the adoption of renewable fuels like e-ammonia and e-methanol. The GHG intensity reduction targets will gradually increase to 80% by 2050 from 2% in 2025 in comparison to the 2020 baseline year. The methodology follows the well-to-wake approach, accounting for the entire supply chain's emissions including nitrous oxides and methane, not just carbon dioxide.

The FuelEU Maritime will affect all vessels of any flag above 5000GT operating in the EU. Chih Chwen briefed on the key timeline for the annual FuelEU Maritime Compliance Scheme. He highlighted that while ship owners can delegate the responsibility to another party under the ISM Code, they will still be ultimately responsible for the submission of relevant documents such as the monitoring plan. The penalties for non-compliance will be hefty, and non-compliance for two consecutive years could lead to the issuance of an expulsion order. It is important to note that in the short-term, EU ETS is more expensive than FuelEU Maritime (before 2035), while in the long-term, FuelEU Maritime will be more expensive than EU ETS (from 2035). Regardless, ship owners will need to comply with both EU ETS and FuelEU Maritime.

Mr Gaurav Moolwaney and Mr Jonathan Howard from Standard Chartered London presented on the impact of Basel 3.1 on shipping finance. Established in 1974, the Basel Committee sets international banking standards, including capital adequacy requirements (Basel I, II, III). Basel 3.1, which will be implemented in 2025, focuses on Risk-Weighted Assets (RWA). The RWA is a measure of risk affecting capital requirements. Both banks and borrowers aim for lower RWA, which means lower capital requirements for banks and potentially lower interest rates for borrowers, but regulators would aim for a minimum threshold to ensure stability.

Basel 3.1 allows flexibility in risk assessment but requires robust models. While Basel 3.1 promotes consistency and stability, capital positions may differ due to varying capital buffers set by banks. It also allows for specialised lending with differentiated capital treatment. A key change is the stricter Loss Given Default (LGD) floor, requiring banks to set aside more for potential losses, impacting capital requirements for most banks.

Members also discussed the regional adoption of Basel 3.1 – European Central Bank (ECB) likely deciding for Europe, and Asian banks potentially adopting later than Western banks -, the importance of stability, and the broader impact on the transportation industry.

Members were then invited to recommend speakers for the topics outlined in the events calendar prepared by the Chairman and circulated before the meeting. Primarily, each session should last between one to two hours with at least 2 speakers to keep the sessions fruitful.

The events lined up for the next 12 months are:

- Shipping Legal 101
- Basel regulations and the expected impact of impending Basel 3.1 on shipping finance
- Sustainable Maritime Finance for Small to Mid-size Shipping Companies
- Carbon Trading: How to Prepare for EU ETS
- Optimising Capital Structures
- Poseidon Principles 101

Members have been requested to provide their suggestions on potential speakers for the above events. The secretariats will circulate the calendar of events once it is finalised. Additionally, the Chairman shared his consideration to have run a certifiable in-person course which will be tailored according to SSA's mandate.

Members noted that the 4th meeting is scheduled for 3rd September 2024, followed by the 5th meeting on 3rd December 2024.

With no further matters discussed, the meeting adjourned at 04:40pm.

Singapore, 12 Jun 2024
